

Message Text

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ACTION EB-07

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USIA-15 AGRE-00 AID-05 CIAE-00 COME-00 INR-07 LAB-04

NSAE-00 OIC-02 SIL-01 STR-04 TRSE-00 CIEP-02 CEA-01

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TAGS: UNCTAD, ETRD

SUBJECT: UNCTAD SECRETARIAT PAPER FOR PREPARATORY MEETING ON
COMMON FUND

FOR EB/ICS - BOERNER

REF: (A) GENEVA 8860, (B) STATE 275766

1. FOLLOWING IS SUMMARY OF SIGNIFICANT POINTS IN UNCTAD
SECRETARIAT PAPER (TD/B/IPC/CF/2) PREPARED FOR PREPARATORY
MEETING ON THE COMMON FUND NOVEMBER 29-DECEMBER 3. (COPY
SENT INTERNATIONAL AIRMAIL FOR BOERNER.)
HEWITT WILL ALSO HAND-CARRY COPY, ARRIVING DC NOV. 15.
SECRETARIAT IN INTRODUCTION NOTES THAT THE MAIN ADVANTAGES OF
COMMON FUND CAN BE SUMMARIZED AS FOLLOWS:

(A) THE ASSURANCE OF ADEQUATE FINANCING WOULD ACCELERATE
THE NEGOTIATION OF MORE DURABLE AND EFFECTIVE ARRANGEMENTS
FOR THE STABILIZATION AND IMPROVEMENT OF INTERNATIONAL
COMMODITY TRADE;

(B) COMMON FINANCING WOULD BE COST-EFFECTIVE. THE
FINANCIAL REQUIREMENTS OF A COMMON FUND WOULD BE LOWER
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THAN THOSE FOR EQUIVALENT INDIVIDUALLY-FINANCED ARRANGE-

MENTS. SUCH ECONOMIES WOULD RESULT FROM THE OFFSETTING OF PURCHASES AND SALES OF STOCKS OVER A RANGE OF COMMODITIES. MOREOVER, LARGE-SCALE INTERNATIONAL FINANCING COULD PROBABLY BE UNDERTAKEN AT INTEREST RATES LOWER THAN THOSE FOR INDIVIDUAL SCHEMES, IN PART BECAUSE THE INVESTMENT OF COMMON FUND RESOURCES IN A NUMBER OF STOCKING OPERATIONS WOULD SPREAD RISK AS PERCEIVED BY LENDERS;

(C) THE MANAGEMENT OF STOCKING OPERATIONS CAN CONCENTRATE ON OPERATIONAL OBJECTIVES, LEAVING THE SPECIALIZED MANAGEMENT OF SOURCES OF FINANCE AND ADMINISTRATION OF LIQUID FUNDS TO THE COMMON FUND.

2. SECRETARIAT BASES ITS PAPER ON THE FOLLOW UNDERLYING ASSUMPTIONS:

(A) A MAJOR PURPOSE OF THE FUND IS THE FINANCING OF COMMODITY STOCKS. THE EXTENT TO WHICH THE FUND IS RESPONSIBLE FOR FINANCING MEASURES OTHER THAN STOCKING NEEDS FURTHER CONSIDERATION. ONE POSSIBLE APPROACH WOULD BE THE CREATION OF SEPARATE ACCOUNTS OR "WINDOWS" IN FUNDS OPERATION FOR STOCKING AND NON-STOCKING ACTIVITIES.

(B) RESOURCES FOR FUND OPERATIONS WOULD BE PROVIDED THROUGH A COMBINATION OF CAPITAL SUBSCRIPTIONS BY MEMBER GOVERNMENTS AND BORROWING.

(C) THE FUND WILL BE ORGANIZED AND CONDUCTED AS A FINANCIALLY Viable AGENCY.

(D) THE VITAL INTEREST OF DEVELOPING COUNTRIES IN THE INTEGRATED PROGRAMME WILL NEED TO BE REFLECTED IN AN EQUITABLE ROLE IN MANAGEMENT AND DECISION-MAKING IN THE FUND.

3. ON FINANCING NEEDS OF THE COMMON FUND, SECRETARIAT SAYS IN LIGHT OF RESOLUTION 93(IV) THE SIZE OF THE FUND HAS BEEN RE-ESTIMATED ON THE BASIS OF EIGHTEEN UNCLASSIFIED

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COMMODITIES AGREED IN RESOLUTION. THE TEN MAJOR STOCKABLE COMMODITIES WOULD REQUIRE \$4.5-5 BILLION AFTER FINANCIAL SAVINGS LIKELY TO BE GENERATED BY OFFSETTING PRICE MOVEMENTS ARE TAKEN INTO ACCOUNT. THE REMAINING EIGHT COMMODITIES WOULD REQUIRE \$1-1.5 BILLION IN THE FORESEEABLE FUTURE.

4. ON CAPITAL STRUCTURE THE SECRETARIAT SAYS THAT IF

STOCKING ARRANGEMENTS FOR THE MAJOR STOCKABLE COMMODITIES
WERE SET UP WITHIN THE TIME LIMIT SET BY RESOLUTION 93(IV),
AN AGGREGATE OF \$3 BILLION WOULD BE PAID UP CAPITAL
AND \$2 BILLION, LOANS. COUNTRY SUBSCRIPTIONS COULD BE
DETERMINED ON AN AGREED PERCENTAGE BASIS BETWEEN
DEVELOPED AND DEVELOPING COUNTRIES OR ON AN AGREED SET
OF CRITERIA SUCH AS THE BENEFITS EACH COUNTRY IS LIKELY
TO OBTAIN FROM THE FUND AND ITS RELATIVE "ECONOMIC
CAPACITY" OR "ABILITY TO PAY".

5. ON EXISTING INTERNATIONAL STOCKING ARRANGEMENTS,
THE PAPER SAYS THE FOLLOWING: "THE RULES OF THE FUND
WOULD NEED TO TAKE ACCOUNT OF EXISTING FINANCING AR-
RANGEMENTS FOR INTERNATIONAL COMMODITY STOCKING AND
THE POSSIBILITY THAT SOME COMMODITY ORGANIZATIONS MIGHT
WISH TO STRENGTHEN THEIR FINANCIAL POSITION THROUGH
AN ELEMENT OF SELF-FINANCING. FLEXIBILITY WOULD THUS
BE INDICATED IN THE FINANCIAL RELATIONS BETWEEN THE
FUND AND ITS CLIENT ORGANIZATIONS, RECOGNIZING, HOWEVER,
THE LIKELIHOOD THAT THE AVAILABILITY OF RESOURCES AND
THE TERMS OF FUND LENDING SHOULD ESTABLISH THE FUND
AS THE PRINCIPAL SOURCE OF FINANCE. IN PARTICULAR,
PROVISION COULD BE MADE BY THE FUND TO ACCOMODATE
CONTRIBUTIONS MADE BY MEMBER GOVERNMENTS TO INTER-
NATIONAL COMMODITY ARRANGEMENTS, IF THESE GOVERNMENTS
SO WISHED. THE EXACT FORM OF ACCOMMODATION WOULD BE
THE SUBJECT OF DISCUSSION BETWEEN THE FUND AND THE
INDIVIDUAL COMMODITY ORGANIZATIONS. IN ANY CASE, DUE
ACCOUNT WOULD NEED TO BE TAKEN OF ACTUAL CONTRIBUTIONS
TO INDIVIDUAL ARRANGEMENTS IN ESTABLISHING THE SUB-
SCRIPTIONS OF THE COUNTRIES CONCERNED TO THE COMMON
FUND."

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6. IN THE SECTION ON BORROWED CAPITAL, THE SECRETARIAT
OBSERVES THAT "AMONG THE INTERNATIONAL
ORGANIZATIONS, A POSSIBLE SOURCE OF FINANCE APPEARS TO
BE THE WORLD BANK. THE ANNOUNCED READINESS OF THE
BANK TO FINANCE INTERNATIONAL COMMODITY STOCKS MAY LEAD
TO THE CHANNELLING OF BANK RESOURCES THROUGHT THE COMMON
FUND IN THE FORM OF LOANS MADE DIRECTLY TO THE FUND.
LENDING FROM IMF DIRECTLY TO THE COMMON FUND WOULD BE
A VALUABLE AND ECONOMIC SOURCE OF BORROWING, BUT WOULD
REQUIRE CHANGES IN ITS ARTICLES OF AGREEMENT. GOVERN-
MENTS MAY THEREFORE WISH TO CONSIDER THE STEPS APP-
ROPRIATE TO FACILITATE FINANCING FOR THE COMMON
FUND FROM THESE INSTITUTIONS."

7. IN THE SECTION ON OPERATIONS OF THE FUND, THE PAPER

NOTES THAT IT WOULD SEEM DESIRABLE THAT, AS A GENERAL PRINCIPAL, THE FINANCING OF OPERATIONS OTHER THAN BUFFER STOCKS SHOULD TAKE PLACE WITHIN THE CONTEXT OF AN INTERNATIONAL COMMODITY AGREEMENT. THIS MAY INSURE THAT THESE OPERATIONS ARE CONSISTENT WITH THE OBJECTIVES OF THE INTEGRATED PROGRAM. IN THE CASE OF DIVERSIFICATION AND PRODUCTIVITY IMPROVEMENT, ELIGIBLE PROJECTS SHOULD BE PART OF A NATIONAL PLAN CONSISTENT WITH THE AIMS OF THE COMMODITY AGREEMENT CONCERNED.

8. "...IT IS CONCEIVABLE FOR THE FUND TO BECOME INVOLVED IN CERTAIN ACTIVITIES OF A CATALYTIC NATURE IN PURSUANCE OF ITS OBJECTIVES. SUCH ACTIVITIES MIGHT INCLUDE THE PROMOTION OF INTERNATIONAL COMMODITY ARRANGEMENTS, THE OVER-ALL REVIEW OF THE WORLD COMMODITY ECONOMY AND AN ADVISORY ROLE IN THE HARMONIZATION OF COMMODITY POLICIES..." "IT WOULD ALSO BE FOR CONSIDERATION WHETHER TEMPORARY MARKET INTERVENTION WOULD BE AN APPROPRIATE ROLE FOR THE FUND. MARKET INTERVENTION MEASURES, HOWEVER, WOULD RAISE CERTAIN FINANCIAL AND MANAGERIAL ISSUES...."

9. UNDER ORGANIZATION AND MANAGEMENT, THE SECRETARIAT NOTES THAT THE ALLOCATION OF VOTES, WITH ITS IMPLICATIONS FOR THE DECISION-MAKING PROCESS, RAISES IMPORTANT AND UNCLASSIFIED

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URGENT ISSUES THE MOST IMPORTANT OF WHICH IS HOW HIGH A PROPORTION SHOULD BE ALLOCATED ACCORDING TO THE EQUALITY PRINCIPLE WITHOUT IMPAIRING THE INCENTIVE FOR SUBSCRIPTION TO THE CAPITAL STOCK OF THE FUND.

10. GIVEN LATENESS OF PAPER, GROUP B WILL ONLY HOLD A GENERAL DISCUSSION NOVEMBER 15 AND WILL DELAY DISCUSSION OF SECRETARIAT PAPER UNTIL NOVEMBER 16. UNLESS DEPARTMENT PROVIDES ADDITIONAL GUIDANCE, WE WILL FOLLOW INSTRUCTIONS IN STATE 275766.ABRAMS

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